

TOWN OF NATICK

Massachusetts 01760

www.natickma.gov

Martha L. White
Town Administrator

Michael Walters Young
Deputy Town Administrator

TOWN ADMINISTRATOR FISCAL YEAR 2010 BUDGET MESSAGE

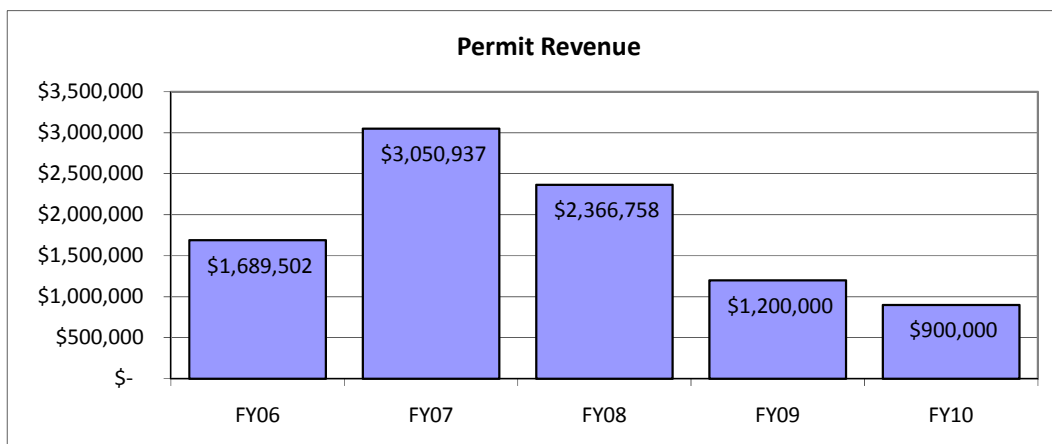
January 5, 2009

To the Honorable Board of Selectmen and the Residents of Natick it is with honor I submit the Town Administrator's Fiscal Year 2010 Budget.

The economic challenges prevalent throughout the nation – and, indeed, world-wide – are affecting local governments as well. Natick is currently experiencing substantially lower than normal receipts in several key local revenue categories, and we anticipate this trend to continue for quite some time. These revenue categories – notably permit fees, motor vehicle excise tax and investment income – are directly affected by the larger economic conditions.

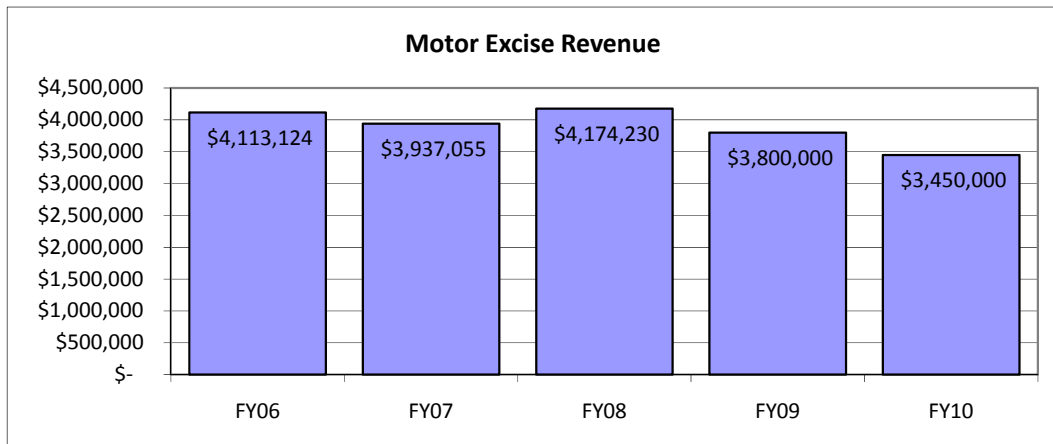
Permit Fees

In recent years, Natick has benefited from sizable increases in permit fees driven largely by the Natick Collection project. We had initially projected a return to normal receipts in this category for FY 2009 and FY 2010, but we are instead seeing a substantial drop-off in building permit applications and associated fee revenues. Alarming, this decline in new construction will also negatively impact New Growth tax receipt projections for FY 2011 and beyond.



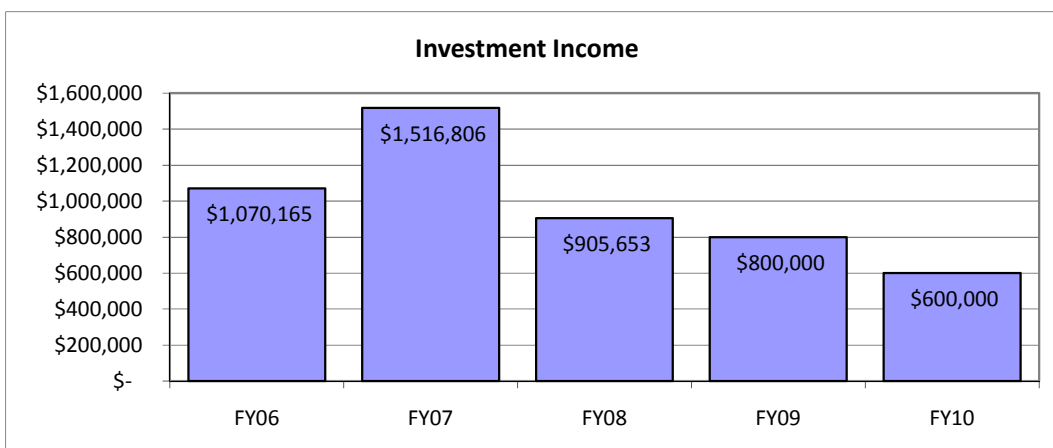
Motor Vehicle Excise Tax

While motor vehicle excise tax receipts cannot be accurately predicted until the state Department of Motor Vehicles submits data to the communities in March, this revenue source is directly related to new car sales, which clearly have plummeted nationwide and locally.



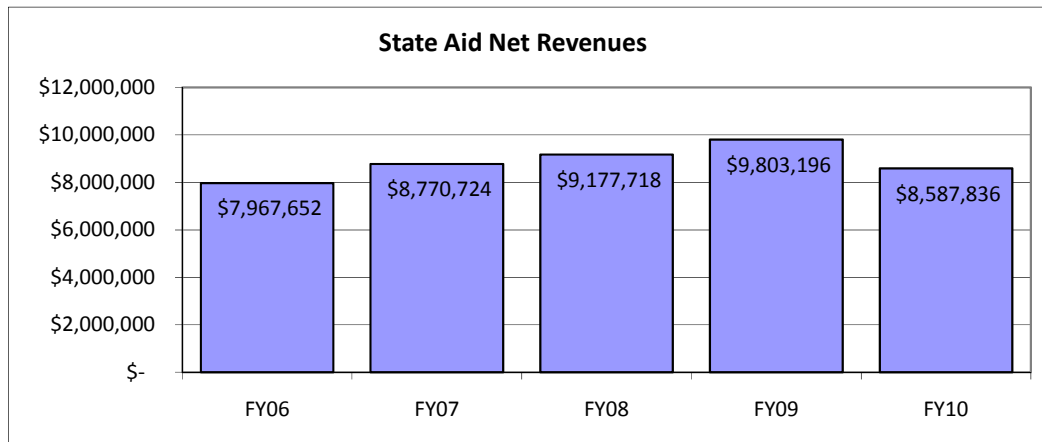
Investment Income

Investment income – derived through the town’s investment of the various funds it has on hand throughout the year – is down simply due to low interest rates.



State Aid

The outlook for State Aid – including Chapter 70 Education Aid – is bleak as well. Prior to the economic downturn, our FY 2010 projections called for increases of between 4-11% in various local aid categories, consistent with recent trends. Our current projections call for a 10% decrease in all local aid categories.



Summary Regarding FY 2010 Budget

The current projections for revenues that will be available in support of the Fiscal Year 2010 Budget deviate substantially from previous fiscal years and will necessitate sizable reductions in expenses. The stability afforded to us by passage of the Proposition 2 ½ Override last spring has been undercut by the widespread recession conditions.

Based on current revenue and expenditure forecasts, a FY 2010 “level service” operating budget, including just minimal capital spending, results in a projected funding shortfall of approximately \$4.7 million (See Appendix A).

On the expense side, both the general government and school department have developed operating budgets that can be characterized as “level service” budgets in that they provide no new personnel and no new services. To maintain level services, a 2.2% increase in general government department budgets is projected (including the budget for General Government Energy). The School Department level-service budget results in a 4.9% increase over current year costs. It is important to note that we will be unable to fund these level service budgets given anticipated revenues.

In fact, significant reductions in spending will be necessary to bring the FY 2010 budget into balance. The Town and School Administrations will undertake this effort over the coming weeks in conjunction with their respective boards. It is anticipated that the extent of cuts necessary will significantly impact the quality and variety of services to which Natick residents have grown accustomed. Sadly, personnel layoffs will be unavoidable and Natick will contribute to the growing ranks of the unemployed.

Until the passage of the Proposition 2 ½ Override in the spring of 2009, Natick had endured several years in which new revenues did not keep pace with increasing costs. During this period, Natick balanced its budgets by drawing upon sources of revenues that are not considered to be recurring, primarily Stabilization Fund, Overlay Surplus and Free Cash to fill the gap. It was hoped that the Override would enable Natick to cease such practices and adequately fund the Town’s exemplary services with recurring revenue sources, while also adequately funding our capital needs. Regrettably, economic conditions that extend far beyond our boundaries will make these goals unattainable in FY 2010 and beyond.

Related Discussion of Current Year Budget

The decline in revenue from Permit Fees, Motor Vehicle Excise Tax and Investment Income is impacting the current year budget (FY 2009) as well. As the operating budget for a fiscal year is developed, available funds are determined by projecting anticipated revenues. Sound fiscal practice demands that such revenue estimates should be realistic, yet conservative, to minimize the potential of shortfalls in the operating budgets and corresponding impacts on free cash. Put simply, revenue projections are intended to reflect the minimum revenue that we would realistically expect to receive. This conservative approach helps to ensure that adequate revenues will be available in support of approved expenditures, and that revenue above and beyond that needed for those expenditures will be available as free cash after year's end.

Today's economic challenges were not present or anticipated when our revenue estimates for FY 2009 were developed. Accordingly, actual receipts are tracking perilously close to projections. As a result, at present there is a modest projected shortfall in this current year's budget. While this deficit can be addressed in the months remaining in this fiscal year, of greater concern is that, with expenditures tracking so closely to revenues, the year-end free cash will be negatively impacted. This concern became reality after FY 2008 was closed, when the state Department of Revenue certified Free Cash just over \$2.4 million; typically Natick's Free Cash is more in the range of \$4 million.

Further, as of this writing, the Governor has announced further declines in projected state-wide revenues and has asked the legislature for additional authority to institute budgetary cuts, including potential cuts to current year state aid allocations. Such an action would be devastating to Natick and would necessitate reductions in current year operations.

In summary, we are presently facing multiple and multi-year budgetary challenges, including

- Anticipated decline in revenues in key local receipts categories
- Anticipated limited available free cash in upcoming years
- Potential reduction in state aid in this current fiscal year
- Virtually certain reduction in state aid in FY 2010
- Likelihood that such trends will continue into subsequent fiscal years

Other Notable Fiscal Challenges

We also have a number of pending liabilities that must be noted, including

- The Police Superior Officers' Union contract expired as of June 30, 2007 and we have been unable to come to terms on a successor agreement. Other unions have generally received 3% cost of living allowances in the intervening years.
- We are funding a \$325,000 supplement for this winter's snow removal activity. This projected expense will continue to be monitored throughout the winter and will be adjusted as needed.

- While the FY 2010 budgeted increase for the Contributory Retirement System is modest, market and other conditions would suggest that we should expect future years' appropriations to increase significantly.
- We must begin to plan for funding of the Town's "other post-employment benefit" (OPEB) obligation. The OPEB obligations are primarily the health care costs for retirees. The Government Accounting Standards Bureau (GASB) is requiring all municipalities to identify their OPEB obligations by 2010; our analysis is underway. While GASB has not, as of yet, required municipalities to fund their OPEB obligations, such a mandate is inevitable. The liability will be significant – millions of dollars – and accordingly many municipalities have already initiated their efforts to fund the obligation.
- The proposed FY 10 budget has just \$350,000 allocated for capital spending. This capital allocation is dramatically lower than what is necessary to adequately address our capital needs and represents yet another in a series of years in which our capital spending is inadequate.

Prudent Measures for Fiscal Progress

We continue to evaluate all operations for opportunities for savings and have instituted several measures recently including

- Instituting a program whereby employees can voluntarily reduce their work hours
- Instituting a hiring freeze unless conditions warrant that the position be filled
- Conducting the fall residential leaf and brush pick up program on a series of Mondays, and deferring the customary Monday bulky waste pick-ups during this period, to avoid the overtime costs usually incurred and assessing opportunities for further reduction of overtime costs throughout all departments.
- Deferring action on certain capital projects that have been authorized but for which funds have not yet been expended.
- Evaluation of opportunities to increase fees where warranted pursuant to the Fee Analysis recently conducted
- Refinancing existing debt, resulting in savings of around \$436,000; our FY 2010 total debt obligation of \$7.159 million begins to drop off in FY 2011, potentially creating opportunity for additional borrowing to fund needed capital projects.
- Evaluating opportunities, in conjunction with representatives from the School Department, to collaborate on the delivery of services, as recommended by the Expense Control Task Force.
- Establishment of Financial Management Principles (see Appendix B). Over the coming weeks, I will be seeking endorsement of these concepts from the Board of Selectmen and Finance Committee.

We are also working with state and federal government officials on key efforts to improve our financial situation. Specifically, in conjunction with the Massachusetts Municipal Managers Association, a set of initiatives has been presented to the Legislative Special Municipal Relief Commission. These initiatives include ideas to improve municipalities' ability to effectively manage human resources by adding tools which are available to the Commonwealth, local government in other states and private sector employees; modernize purchasing laws; and increase flexibility within local government.

And finally, we are preparing a comprehensive package for submission to the Lt. Governor in response to Economic Stimulus Package that is anticipated to be approved at the federal level. This bill will likely include significant funding for infrastructure projects for which construction can commence within 180 days and which can be completed within two years.

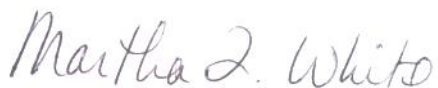
Eligible projects include, but are not limited to, public safety, wastewater, water, solid waste, recreational, city and town buildings, senior/community centers, some garages (those not linked to the MBTA), public library and cultural facilities. Natick will certainly submit competitive applications for all projects that meet the stated criteria.

A Note Regarding the Budget Format

Those familiar with Natick's customary budget presentation format will notice significant changes. We hope that these changes will bring further clarity and transparency to the budget review process. My thanks go to Deputy Town Administrator Michael Walters Young for these enhancements and to Finance Director Robert Palmer for his solid financial management and support to Michael and myself throughout the budget preparation process. Thanks also to the Richard Jennett, Chair of the Finance Committee for his input regarding the presentation changes.

Our challenges over the coming months are many. Our services to the community will be changed as a result of the economic challenges that we now face. We will do our best to minimize impacts to services most needed, and we will undertake this effort with the greatest possible transparency. We seek the public's awareness and participation in this challenging effort.

Sincerely,

A handwritten signature in cursive script that reads "Martha L. White".

Martha L. White
Town Administrator

REVENUE/EXPENDITURE FORECAST
Reflecting Updated FY 2009 and FY 2010 Forecasts

Appendix A

All Projections Subject to Change

	A	B	C	D	E
Revenue Summary	FY08 Budget	FY09 BUDGET PER FALL 2008 ATM	FY09 Projected (Nov. 2008)	FY10 Projected (Jan. 2008)	FY10 Projected (Jan. 2009)
Real Estate/Property Taxes					
Base Tax Levy	61,821,370	64,250,184	64,253,304	71,396,003	72,154,997
Statutory 2 1/2 Increase	1,545,534	1,606,255	1,606,333	1,784,900	1,803,875
Proposition 2 1/2 Override	0	3,900,000	3,900,000		
Growth in Tax Base	883,280	1,639,851	2,395,360	1,425,000	950,000
Natick Collection Projected Tax	1,000,000	750,000	550,000	500,000	0
Debt Exclusion (Wilson School)	960,274	937,705	937,705	918,361	918,361
Total Tax Levy	66,210,458	73,083,995	73,642,702	76,024,264	75,827,233
Intergovernmental Resources (State Aid)					
Education Items	5,548,696	6,018,907	6,018,907	6,711,478	5,417,016
SBA Reimbursement Existing Projects	1,369,707	916,839	916,839	1,221,422	916,839
General Government Items	5,339,074	5,405,261	5,405,261	5,620,368	4,864,735
Projected Net State Aid	12,257,477	12,341,007	12,341,007	13,553,268	11,198,590
Local Receipts					
Estimated Receipts	11,618,725	10,758,913	10,000,000	11,295,186	9,231,500
Intergovernmental Transfer	2,379,592	2,450,980	2,546,345	2,524,509	2,546,345
Available Funds (Free Cash)	5,057,917	3,000,000	3,000,000	3,000,000	2,000,000
Stabilization Fund	256,102	600,000	600,000	600,000	600,000
Overlay Surplus	1,116,024	-	0	500,000	500,000
Other Available Funds	323,167	210,851	210,851	323,167	210,851
Total Local Receipts	20,751,527	17,020,744	16,357,196	18,242,862	15,088,696
TOTAL RECEIPTS	99,219,462	102,445,746	102,340,905	107,820,394	102,114,519
Expenditure Summary	FY08 Budget	FY09 BUDGET PER FALL 2008 ATM	FY09 Projected (Nov. 2008)	FY10 Projected (Jan. 2008)	FY10 Projected (Jan. 2009)
General Government Budget	23,174,888	23,840,915	23,840,915	24,393,976	24,308,103
School Budget	40,928,029	43,474,430	43,474,430	45,648,152	45,647,840
Keefe Tech Assessment	1,204,965	1,135,347	1,135,347	1,175,325	1,175,325
Insurance/Employee Fringe	12,634,283	13,372,367	13,372,367	14,977,051	14,553,280
Property/Liability Insurance	459,400	496,150	496,150	520,958	496,150
Contrib. Retirement	5,254,279	5,040,179	5,040,179	5,266,201	5,152,503
Non-Contrib. Retirement	145,109	130,197	130,197	115,274	118,964
General Gov't Energy	1,320,830	1,456,684	1,456,684	1,500,384	1,532,670
Debt & Interest	7,239,698	6,915,198	6,915,198	7,020,804	7,158,758
Debt/Additional Capital	0		0	584,691	0
Reserve Fund	300,000	400,000	400,000	400,000	400,000
Total Article 2 - Budget Expenses	92,661,481	96,261,467	96,261,467	101,602,814	100,543,593
Morse Institute Library (Article)	1,668,681	1,780,357	1,780,357	1,833,768	1,858,422
Bacon Free Library (Article)	111,607	116,928	116,928	120,436	125,147
Capital Equip. & Improvements (Articles)	1,122,250	293,900	293,900	350,000	350,000
School BusTransportation subsidy (Article)	302,122	302,122	302,122	311,186	311,186
Total Other Expenditures	3,204,660	2,493,307	2,493,307	2,615,389	2,644,755
Total Budgeted Expenses	95,866,141	98,754,774	98,754,774	104,218,204	103,188,347
Other Expenditures					
State & County Assessments	1,643,654	1,552,943	1,552,943	2,020,413	1,622,825
Cherry Sheet Offsets	66,398	68,029	68,029	69,404	71,090
Tax Title	25,000	25,000	25,000	25,000	25,000
Overlay	1,003,911	1,040,000	1,040,000	1,060,000	1,150,000
Snow Removal Supplement	201,261	650,000	732,779	325,000	325,000
Golf Course Deficit	355,000	355,000	435,000	375,000	455,000
Total Other Expenditures	3,295,224	3,690,972	3,853,751	3,874,817	3,648,915
TOTAL EXPENDITURES	99,161,365	102,445,746	102,608,525	108,093,021	106,837,262
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NET EXCESS / (DEFICIT)	58,097	0	(267,620)	(272,626)	(4,722,743)